

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0397-01
Bill No.: HB 248
Subject: Education, Higher, Revenue Dept., Taxation and Revenue - Income
Type: Original
Date: February 16, 2011

Bill Summary: Would authorize an income tax deduction for 100% of tuition and fees for up to the last 9 or 18 hours required to complete associate or bachelor degrees from a public two-year or four-year university.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(More than \$7,920,000)	(More than \$7,920,000)	(More than \$7,920,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$7,920,000)	(More than \$7,920,000)	(More than \$7,920,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Department of Higher Education** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Revenue** (DOR) assume this proposal would, create a deduction beginning January 1, 2012 equal to 100% of tuition and fees for the last credit hours or their equivalent necessary to complete the taxpayer's associate or bachelor degree requirements at a public two-year or four-year institution.

DOR would create procedures for implementation, and may confer with public 2-year or 4-year higher education institutions to develop the procedures. The provisions would sunset on December 31, six years after the effective date unless reauthorized by the General Assembly.

DOR officials assume that forms and departmental system changes would be required.

ASSUMPTION (continued)

Administrative cost

DOR officials assume that Personal Tax would require two additional FTE Temporary Tax Employees for key entry, one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 manually reviewed returns, and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence.

In addition, Collections and Tax Assistance would require:

- * one FTE additional Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the non-delinquent tax line; also CARES equipment and agent licenses,
- * one FTE additional Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent tax line; also CARES equipment and agent licenses, and
- * one FTE additional Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the field; also CARES equipment and agent licenses for the Jefferson City Tax Assist Office.

The DOR estimate of cost to implement this proposal including five additional employees and the related fringe benefits, equipment, and expense totaled \$216,245 for FY 2012, \$217,724 for FY 2013, and \$220,000 for FY 2014.

Oversight assumes that this proposal would require only the addition of a line for the deduction on DOR forms, would involve a limited number of taxpayers, and could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposals are implement which increase the DOR workload, resources could be requested through the budget process.

ASSUMPTION (continued)

IT Cost

DOR officials also provided an estimate of the IT cost to implement the proposal. The estimate of cost for ITSD-DOR was \$8,904, based on 336 programming hours to make changes to the individual income tax processing system (MINITS).

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no additional cost or savings to their organization.

BAP officials stated that the proposal would provide a deduction equivalent to the tuition paid for the final hours of college credits, up to eighteen hours, for resident taxpayers who have recently graduated from a public four-year institution. Data from the DHE website was included in a table in the BAP response, and BAP officials concluded that approximately \$66.0 million could be deductible under this proposal. Assuming a 4.5% effective tax rate, BAP officials estimated that this proposal could reduce general and total state revenues by \$2.97 million.

Oversight has calculated an estimate of the cost of this proposal of \$176 million in additional deductions at a 4.5% average tax rate, for a total estimated cost of \$7.92 million.

Oversight assumes the cost of this proposal would be larger than the amount calculated due to the unknown number of students who complete a degree in four years but do not attend a Missouri public institution for the duration of their undergraduate studies. In addition, taxpayers who completed qualifying degree programs in previous years could claim this deduction. For the purposes of this fiscal note, Oversight will indicate a cost of more than \$7.92 million per year.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - additional income tax deductions	<u>(More than \$7,920,000)</u>	<u>(More than \$7,920,000)</u>	<u>(More than \$7,920,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$7,920,000)</u>	<u>(More than \$7,920,000)</u>	<u>(More than \$7,920,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would authorize an income tax deduction for 100% of tuition and fees for up to the last 9 or 18 hours required to complete an associate or bachelor degree from a public two-year or four-year university.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Higher Education
Department of Revenue

NOT RESPONDING

Office of Administration
Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 16, 2011